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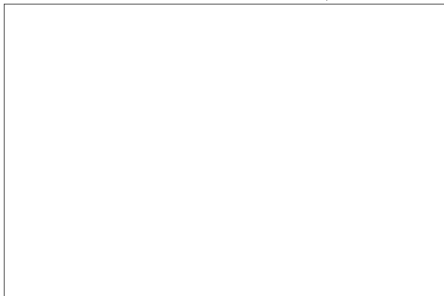
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~~TOP SECRET~~**GENERAL****1. South Korea still adamant on UN proposal at Geneva:**

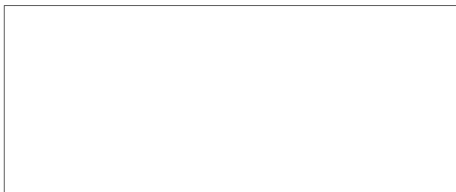
The American delegation at Geneva reports it is making no headway in attempting to convince the South Korean delegation not to include a specific demand for a Chinese troop withdrawal in the proposed 16-nation statement of principles. The delegation believes that Foreign Minister Pyun is unwilling to suggest any changes to Rhee on this point,

and that no progress can be made unless Rhee can be persuaded to change his position.

Meanwhile, Ambassador Dean reports that Rhee would agree to the statement if it were modified to provide also for the withdrawal of North Korean forces, or if the United States would, in a secret letter, agree to support South Korea in an attack against the North Korean forces after the Chinese withdrawal.

Comment: Communist refusal to accept the statement of general principles could provide the West with a sound moral and propaganda basis on which to break off the Korean talks.

In conversations with Ambassador Dean, Rhee has been particularly angry over American refusal to build up his army to 35 divisions. He also objects to the exclusion of South Korea from the proposed Southeast Asia defense alliance and American insistence that Japan be included as a source of supply for aid goods.

2. Bohlen speculates on Soviet influence over Communist Chinese action in Indochina:

Ambassador Bohlen has reiterated his belief that Soviet foreign policy in its present phase is controlled by the determination to retain

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all postwar Communist acquisitions, and the desire to avoid crises which might lead to Soviet military involvement.

He speculates that Soviet influence on Communist Chinese action is exerted in direct ratio to the risk involved for the Orbit. He believes that if it were evident to the USSR and the Chinese that the risk of a major conflict over Indochina was real, then Soviet influence would be decisive. Bohlen thinks it is unlikely that the USSR would be prepared to risk military involvement over a remote area which is of little direct interest to the Soviet state.

However, Ambassador Bohlen points out, the Communists may believe that because of Western disunity they can proceed to acquire all of Indochina without a serious risk of a major conflict.

Comment: Although the existence of a Communist regime in Indochina would not be essential to Soviet security, the prestige of Moscow as well as Peiping is heavily committed to the fortunes of the Viet Minh. Available information does not support a belief that Moscow and Peiping are at odds on Indochina policy. Hints from Soviet sources that Peiping is more aggressive than Moscow wishes are believed to be diplomatic maneuvers.

While Moscow and Peiping apparently hope to avoid internationalization of the Indochina war, the Sino-Soviet propaganda line developing since early April seems to be in preparation for possible large-scale Chinese intervention in response to internationalization.

FAR EAST

3. Japanese seek American loan to bolster Yoshida:



High Japanese government officials approached American bankers in Tokyo last week regarding the opening of negotiations for a \$150,000,000 credit while Prime Minister Yoshida is visiting the United States next month, Ambassador Allison in Tokyo reports. These officials stated that if Yoshida returned empty-handed, it would be a fatal blow to the prime minister and his Liberal Party.

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The embassy, on the other hand, believes such a loan might delay the steps which the Japanese themselves could take to improve their economic situation and that the United States might be accused of "buying" Yoshida.

Comment: The Japanese, for political reasons, attempted unsuccessfully to get a loan in 1952 to help them through the critical general elections.

SOUTHEAST ASIA

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5. French say Viet Minh underground capabilities in south Vietnam increased:

[redacted] The recent transfer of police control in south Vietnam to the quasi-gangster Binh Xuyen organization has so weakened security that Viet Minh paramilitary capabilities have been greatly enhanced, [redacted] Hundreds of former police personnel have resigned and will be replaced by inexperienced Binh Xuyen appointees.

Viet Minh paramilitary capabilities in north Vietnam are considerable, but there is no evidence they are increasing.

Comment: French officials earlier estimated that the anti-Viet Minh potential of the Vietnamese police would not be weakened by the Binh Xuyen's assumption of control. They said the transfer of police control was disastrous only because of its effect on the internal political situation.

6. Ely agrees to American training of Vietnamese army:

[redacted] General Ely, French armed forces chief of staff, who is now in Saigon, has accepted in principle General O'Daniel's concept of training the Vietnamese national army with the help of American advisers, according to the American embassy in Saigon. He also agreed that American advisers should be attached to Vietnamese units, but emphasized there would be no American participation in operational planning.

Ely did not assent to O'Daniel's insistence on the formation of Vietnamese divisions. O'Daniel believes nine divisions could be formed by October and then commence operations northward from southern Indochina.

Comment: Over a period of years the French have reluctantly accepted American economic, military and technical aid. They have strongly resisted, however, "internationalization" of the war

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to a point which might prejudice the essentially French character of the anti-Viet Minh effort.

General Navarre, in particular, has opposed American participation in the training of Vietnamese troops.

7. India to approach Peiping on interference in Burma's internal affairs:

Comment: Indian overtures would almost certainly not have any practical effect on Peiping's policies toward Burma. The incident suggests that New Delhi continues to believe in the reasonableness of the Chinese Communist regime.

Since its establishment in 1950, the Chinese Communist embassy in Rangoon has only thinly disguised its support of left-wing opposition elements and has openly attempted to gain control over Burma's Chinese minority.

8. Petrov revelations may implicate Indonesian diplomats:

A Sydney newspaper reported on 17 May, under a London dateline, that evidence supplied Australian authorities by Vladimir Petrov

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"will show that Indonesian diplomats in Australia were working closely with the Russian embassy on the Red network in Southeast Asia." The Ministry of External Affairs in Canberra was noncommittal when questioned on the report by the American embassy, but an official of the [redacted] described the story as "another embarrassing British leak."

Comment: This report suggests that the Indonesian foreign service has not escaped Communist infiltration similar to that reported in other ministries since the advent of the Ali government last July.

There is some evidence that covert Communist activity in Southeast Asia was coordinated in Australia in the immediate postwar years and that more recently such coordination has centered in Indonesia. Arrangements have been made for the opening of a Soviet embassy in Djakarta in the near future.

SOUTH ASIA

9. East Pakistan government's position threatened:

[redacted] Following the riots on 15 May in East Pakistan, the situation is "distinctly ominous" and serious tension in five major cities is reported by the American consulate general in Dacca. The army commander in the province has strongly urged the imposition of martial law.

The provincial government seems unable to control the situation and apparently is trying to place the blame for the riots on the mill owners and the central government in Karachi. The consulate general believes this may encourage Communist exploitation of the situation.

One provincial minister, a strong pro-Communist, has helped spread a rumor--probably false--that refugees from India plotted the massacre and that most of the 360 dead were native Bengalis.

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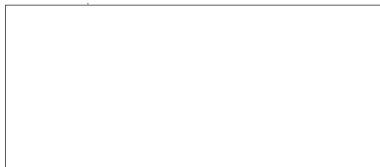
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Comment: Unless East Pakistan's Chief Minister Fazlul Huq and conservative elements of his United Front cabinet take firm action to re-establish order and curb Bengali xenophobia, Communist elements spearheaded by their supporters in the ministry may make a strong bid for control of the province.

Karachi is probably reluctant to increase friction with the provincial government by imposing martial law. It has taken advantage of the riots, however, to begin a general roundup of Communists in both East and West Pakistan.

NEAR EAST - AFRICA

10. Saudi Arabia may request ARAMCO to resume exploration in disputed Trucial area:



King Saud is "alarmed" by the continued operations of British oil companies in the disputed Trucial Coast region and asked the Arabian-American Oil Company (ARAMCO)

on 16 May when it could send an exploration party into the area, according to Chargé Jones in Jidda. The company replied that a party could be ready in four or five days.



Comment: The British have repeatedly rejected Saudi demands and American recommendations for suspension of all oil operations in the disputed area. Moreover, they have re-emphasized that entry by an ARAMCO party would be forcibly resisted.

Because of the possibility of a clash, ARAMCO may use delaying tactics before acceding to a Saudi request to enter the region. The company is, however, in a poor position to refuse Saudi demands for such exploration.

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